GOVERNMENT OF ANDHRA PRADESH
ABSTRACT

Industries and Commerce Department – M/s KIA Motors India Private Limited (KMI)) to set up a car manufacturing facility at Erramanchi Village, Ananthapuramu District - State Support Package issued under G.O.Ms.No.56, Ind. & Com. (P&I) Dept., dated 26.04.2017 extending State Support Package under "Backward Areas Ultra Mega Integrated Automobile Projects Policy and Industrial Development Policy 2015-20 – Amendment - Orders-Issued.

Industries and Commerce (P&I) Department

G.O.MS.No. 62 **Dated: 26-04-2018**

Read the following:-

1. GO.Ms. No.56, Inds. & Comm. (P&I) department 26-04-2017.
2. Representations of M/s KIA Motors India Private Limited (M/S KIA MOTORS INDIA PRIVATE LIMITED (KMI)), dated 10.11.2017.
3. Representations of M/s KIA Motors India Private Limited (M/S KIA MOTORS INDIA PRIVATE LIMITED (KMI)), dated 03.01.2018 and 03.02.2018.
4. Minutes of the State Investment Promotion Board Meeting held on 15-02-2018.

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ORDER

In the G.O. 1st read above, Government have issued orders extending certain incentives to M/s KIA Motors Corporation to set up car manufacturing facility with the production of 3,00,000 Cars per annum at Erramanchi and Gudipalli Villages, Ananthapuramu District with an investment of USD 1.6 Billion, which include eligible fixed assets of USD 1.0 Billion and an investment of USD 500 Million by vendors over a period of 7 years with a total investment of USD 2.0 Billion, with a potential to create employment opportunity together with the Associates and Vendors for 4,000 permanent and direct employees and 7,000 temporary employees, under Backward Area Ultra Mega Integrated Automobile Policy and Industrial Investment Promotion Policy 2010-2015.

2. Post introduction of Goods and Services Tax (GST), M/s KIA Motors Corporation has requested the Government in the reference 2nd and 3rd read above to provide fiscal incentives up to 100% of Eligible Fixed Assets, as they are not able to recoup 100% of its investment in "Eligible Fixed Assets" in terms of MoU, Dated 27.04.2017 and G.O.Ms.No.56, Inds. & Comm. (P&I) Department, Dt. 26-04-2017 in the GST Regime.

3. M/s KIA Motors Corporation has requested for the following fiscal incentives, in addition to the fiscal incentives already granted to them in the G.O. 1st read above:-

(i) Period for claiming the fiscal (tariff as well as non-tariff) incentives to be extended from 20 years to 25 years as it would be extremely difficult for M/S KIA MOTORS INDIA PRIVATE LIMITED (KMI) to recoup its investment to the extent of 100% of "Eligible Fixed Assets" (as defined in Memorandum of Understanding dated 27th April, 2017) by way of fiscal incentives under Goods and Service Tax regime. Fiscal incentives to be released on half yearly basis through online portal with minimum human intervention. A penal interest to be paid to M/S KIA MOTORS INDIA PRIVATE LIMITED (KMI) in case of inordinate delays (beyond 90 days of filing) in release of the agreed financial incentives.

(ii) Refund of Gross output SGST on sale of motor vehicles as well as spare parts finally sold within Andhra Pradesh for a period of 25 years. Such SGST shall also be payable on the value addition by dealers. Refund of Gross SGST on whole supply chain on sale of vehicles and parts manufactured by M/S KIA MOTORS INDIA PRIVATE LIMITED (KMI) under its own brands or other brands (contract/job work basis) in Andhra Pradesh.

(P.T.O)

(iii) Refund of non-creditable SGST paid by M/S KIA MOTORS INDIA PRIVATE LIMITED (KMI) on procurement of works, contract services or other goods or services used for the construction of all facilities at the Project including Manufacturing Facilities, Training Centre and Truck Terminals etc. as well as Township for period of 25 years from the date of commencement of construction.

(iv) Refund of Value added Tax paid by M/S KIA MOTORS INDIA PRIVATE LIMITED (KMI) for procurement of petroleum products for purposes of initial fuelling of tanks of vehicles produced at the plant and for all facilities at the Projects including manufacturing facilities, training centre and truck terminals etc. for a period of 25 years from the date of commencement of commercial production.

(v) Refund of road tax amount payable for vehicles manufactured at their plant which are sold through and registered in Andhra Pradesh for a period of 25 years from the date of commencement of commercial production on a half yearly basis.

(vi) One-time subsidy for effluent treatment plant, etc. equivalent to 50% of the capital investment in establishing an effluent treatment plant which shall be capped at Rs 50 crores to be provided on the completion of construction.

(vii) Training subsidy of Rs. 10,000/- per trainee for 2,000 trainees every year for five (5) years and one-time Training Centre investment subsidy equivalent to the cost of construction of Training Centre and the facilities contained therein to be provided on the completion of construction.

(viii) Capital subsidy to the extent of shortfall of fiscal incentives to allow M/S KIA MOTORS INDIA PRIVATE LIMITED (KMI) to recoup 100% of its investment in Eligible Fixed Assets. Such shortfall of fiscal incentives shall be addressed with an appropriate mechanism of capital subsidy to the amount of approximately USD 125 million, which shall be disbursed within the first month of every calendar year for a period of 25 years from the date of commencement of commercial production in equal instalments.

(ix) To provide Road Over and Rail over Bridge (RoB) to reduce congestion.

(x) To approve Industrial Use Zone and incorporate in the Master Plan.

4. The proposal was discussed in detail in the State Investment Promotion Board meeting held on 15.02.2018 and the board noted that the Government has committed to extend fiscal incentives up to 100% of Eligible Fixed Assets to M/S KIA MOTORS INDIA PRIVATE LIMITED (KMI) and to address any shortfall in the fiscal incentives through capital subsidy, post Goods and Service Tax regime. The Board noted that extending reimbursement of Output SGST alone is not sufficient to meet 100% eligible fixed assets criteria, as the sales of M/S KIA MOTORS INDIA PRIVATE LIMITED (KMI) in Andhra Pradesh are meagre (approx.2.6% of total production capacity of 300,000 cars). As such, the Board has decided to consider other incentives related to contributions made by M/S KIA MOTORS INDIA PRIVATE LIMITED (KMI) such as work contract tax, road tax, Value added Tax on petroleum products etc. to recoup 100% eligible fixed assets. As the quantum of incentives is still less than 100% eligible fixed assets, the Board decided to consider power cost reimbursement, water cost reimbursement, infrastructure for overall development of automobile corridor, skill development and capacity building as part of incentive package.

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5. The Board further noted that even after considering all the above possible incentives, there is a gap of USD 124.8 Million (approx. Rs. 811.2 Crores) as per the projected estimates for 25 years. However**,** the actuals will be worked out based on actual performance of M/S KIA MOTORS INDIA PRIVATE LIMITED (KMI). The Board also directed Industries Department to take-up review of Incentives after 3 years to assess actual financial implication to the Government and subsequent reviews based on the need.

6. The above mentioned proposal was discussed and the Board has decided to extend the following fiscal incentives in addition to the fiscal incentives already granted in the G.O. 1st read above, to enable M/S KIA MOTORS INDIA PRIVATE LIMITED (KMI) to recover 100% of investment in Eligible Fixed Assets, post Goods and Service Tax Regime. However, non-fiscal support such as land concession and infrastructure & utilities etc. provided by Government of Andhra Pradesh will not be considered as part of eligible fixed capital investment. The actual disbursement of incentives to M/S KIA MOTORS INDIA PRIVATE LIMITED (KMI) shall be subject to their compliance with performance conditions and necessary safeguard clauses in Annexures -II & III.

(i) To extend all incentives for a period of 25 years, as M/S KIA MOTORS INDIA PRIVATE LIMITED (KMI) is not able to recover 100% Eligible Fixed Assets in 20 years.

(ii) Refund of Output SGST finally accrued to State on the sale of motor vehicles and on sale of spare parts of its own brand or other brands, including the value addition by dealers, in place of Output SGST and Soft Loan on Input SGST agreed in Go.Ms.No. 56, Ind. & Com. (P&I) Dept., dt. 26.04.2017.

(iii) To extend refund of road tax for vehicles sold and registered in AP instead of soft loan, as the soft loan is subject to a tax implication of about USD 56 Million (approx. Rs. 365 Crores), as per recent income tax regulations. This will result in an additional incentive burden on GoAP, to compensate income tax implications.

(iv) Refund of Non-creditable SGST paid on procurement of works, contract services or other goods or services used for the construction of all facilities at the Project including manufacturing facilities, Training Center, Truck Terminals, Township for period of 25 years from date of commencement of construction.

(v) Refund of VAT on procurement of petroleum products for purposes of initial fueling of tanks of vehicles produced at the plant and for all facilities at the Projects including manufacturing facilities, training center and truck terminals for a period of 25 years from date of commencement of Commercial Production. (DCP)

(vi) Subsidy for Green Measures 50% of project cost or Rs. 50 crores whichever is less instead of 25%, as provided to all other mega projects.

(vii) To provide training grant of Rs. 10,000 per trainee for 2,000 trainees every year for 5 years at the end of each financial year and to provide one time subsidy for the cost of construction of Training Centre and the facilities contained therein to a tune of USD 9.0 Million or the actual, whichever is less, on the completion of construction, as it will caters to the skilled manpower requirement for the entire automobile cluster in the region.

(viii) To provide gap of USD 124.8 Million (approx. Rs. 811.2 Crores) in incentives, as per the projected estimates in the form of capital subsidy in equal annual installments for 25 years.

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8. With regard to providing infrastructure, the following decisions were taken:-

(i) To permit M/s. Andhra Pradesh Industrial Infrastructure Corporation Ltd. (APIIC) to take up Road Over and Rail over Bridge (RoB) work and also to engage Project Management Consultant (PMC) for the construction process.

(ii) To exempt M/s. Andhra Pradesh Industrial Infrastructure Corporation Ltd. (APIIC) from land conversion charges from Agriculture use to Industrial use relating to M/S KIA MOTORS INDIA PRIVATE LIMITED (KMI) sites.

(iii) Directed Panchayat Raj Department to accord permission for zoning M/S KIA MOTORS INDIA PRIVATE LIMITED (KMI) sites development area and to include in the Master Plan.

(iv) Directed Andhra Pradesh State Skill Development Corporation (APSSDC) to initiate necessary training programmes to train local population to make them employable in Automobile Sector.

9. After careful examination of the proposal, the Government hereby issue the following amendments to the State Support Package extended to M/S KIA MOTORS INDIA PRIVATE LIMITED (KMI) issued in G.O.No. Ms. No. 56, Ind. & Com. (P&I) Dept., dated 26-04-2017 to enable M/S KIA MOTORS INDIA PRIVATE LIMITED (KMI) to recover 100% of investment in Eligible Fixed Assets, post GST Regime. However, non-fiscal government support which forms part of the State Support Package such as land concession and infrastructure & utilities etc. provided by Government of Andhra Pradesh will not be considered as part of calculation of 100% of Eligible Fixed Assets of M/S KIA MOTORS INDIA PRIVATE LIMITED (KMI) and shall also not be considered as a part of State Fiscal Incentives being given to M/S KIA MOTORS INDIA PRIVATE LIMITED (KMI).

AMENDMENTS

In the said GO,

(1) for para 4 (I) (VAT Regime) & 4(II) (GST Regime), the following shall be substituted, namely,-

"To extend the following incentives under GST regime for a period of 25 years, as M/S KIA MOTORS INDIA PRIVATE LIMITED (KMI) is not able to recover 100% Eligible Fixed Assets in 20 years:-

(i) Refund of Output SGST finally accrued to State on the sale of motor vehicles and on sale of spare parts of its own brand or other brands, including the value addition by dealers from Date of Commencement of Commercial Production.

(ii) Refund of road tax for vehicles sold and registered in AP instead of soft loan as per recent income tax regulations, from Date of Commencement of Commercial Production.

(iii) Refund of Non-creditable SGST paid on procurement of works, contract services or other goods or services used for the construction of all facilities at the Project including manufacturing facilities, Training Centre, Truck Terminals, Township for period of 25 years from Date of Commencement of construction.

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(iv) Refund of VAT on procurement of petroleum products for purposes of initial fueling of tanks of vehicles produced at the plant and for all facilities at the Projects including manufacturing facilities, training center and truck terminals for a period of 25 years from date of commencement of commercial production.

(v) Subsidy for Green Measures equal to 50% of investment or 50 crores whichever is less instead of 25% subsidy, for sustainable green measures on total fixed capital investment of the project to be provided on the completion of construction as mentioned in the Industrial Development Policy 2015 – 2020.

(vi) Power supply @ Rs. 3.00 per kwh / unit (inclusive of all charges, levies, special peak usage charges etc. irrespective of the amount of consumption or time of usage, day of usage etc.) for the Project including manufacturing facilities, training centre and truck terminals for 25 years from the date of commencement of commercial production.

(vii) Training subsidy of Rs. 10,000 per trainee for 2,000 trainees for five (5) years at the end of each financial year upon submission of proof from Date of Commencement of Commercial Production. However, training grant will be provided only once for each trainee. One time subsidy for the cost of construction of Training Centre and the facilities contained therein be provided on the completion of construction.

(viii) Reimbursement of fixed Water Supply cost @ Rs.35 per ton/KL for the Project, Training Centre and Truck Terminal and reimbursement of water tax (if any) for 25 years or 100% of the Eligible Fixed Assets, whichever is less, from Date of Commencement of Commercial Production.

(ix) Above incentives to be made available for water tanker and ground water bore well supply at the Project Site, as and when applicable.

(x) No Octroi Duties and No Entry tax will be levied on any items procured by the investors.

(xi) Exemption from electricity tax for 25 years from the date of commercial production for both the Government of Andhra Pradesh supply and captive power consumption.

(xii) Revenue Department to issue necessary notification for 100% stamp duty and transfer duty, mortgage duties, registration charges etc. on purchase and / or lease of land by KMI or any document for creation of any security interest by KMI for its assets and properties.

(xiii) To meet the gap in incentives, capital subsidy shall be provided in equal annual installments for 25 years.

(xiv) All fiscal incentives are subject to fulfilling of the Performance Conditions envisaged in Annexure–II and the necessary safeguards prescribed in Annexure-III.

In addition, the following shall be provided,-

(i) Industries Department to take-up fiscal incentives review after 3 years to assess actual financial implication to the Government to provide fiscal incentives in the form of capital subsidy and subsequent reviews based on the need and / or every 3 years.

(P.T.O)

(ii) Permitted Andhra Pradesh Industrial and Infrastructure Corporation Ltd (APIIC) to take up Road Over Bridge and Rail Over Bridge work and also to engage Project Management Consultant (PMC) for the construction process.

(iii) The Revenue Department to exempt Andhra Pradesh Industrial and Infrastructure Corporation Ltd (APIIC) from payment of land conversion charges from Agriculture use to Industrial use relating to M/S KIA MOTORS INDIA PRIVATE LIMITED (KMI) sites.

(iv) The Panchayat Raj Department to accord permission for zoning M/S KIA MOTORS INDIA PRIVATE LIMITED (KMI) sites development area and to include in the Master Plan.

(v) Andhra Pradesh State Skill Development Corporation (APSSDC) is advised to initiate necessary training programmes to train local population to make them employable in Automobile Sector.

(2). After annexure, the following annexures shall be inserted namely,-

ANNEXURE–II

Performance Conditions for M/S KIA MOTORS INDIA PRIVATE LIMITED (KMI)

S. No.	Indicator	Condition
1	Investment Period	Five years with 2 years extension from effective date (i.e. from 27 April 2017)
2	Investment	USD 1.6 Billion together with its Associates, Approximately USD 1.0 Billion in Eligible Fixed Assets
3	Employment opportunity along with Associates and Vendors	Potential to create employment opportunity for 4000 permanent and direct employees and 7000 temporary employees. The temporary employees shall include all contractors and subcontractors
4	Installed Capacity	Initial installed capacity of 300,000 cars per year and maybe further increased to a final installed capacity of 400,000 cars per year in a phased manner during the investment period of 7 years, subject to market conditions and business exigencies.
5	Actual Production Capacity	Min 70% of the installed capacity for the 1st 3 years and 100% from the subsequent years.
6	Local employment	80% local employment subject to local trainees meeting the global skill level and qualification criteria established by M/S KIA MOTORS INDIA PRIVATE LIMITED (KMI)
7	Localization of car manufacturing	M/S KIA MOTORS INDIA PRIVATE LIMITED (KMI) shall make its best efforts in order to achieve an approximate localization level of 80% ex-works on its vehicles produced.
8	Review	First Review in 3 years and subsequent reviews based on the need and / or every 3 years • Actual investment made • Volume of sales achieved in AP • SGST/VAT accrued to the State • Fiscal incentives paid • Shortfall in fiscal incentives and capital subsidy to be paid

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Annexure – III

Safeguard Clauses

S. No	Area	Coverage of clause
1.	Accuracy of information provided by M/S KIA MOTORS INDIA PRIVATE LIMITED (KMI)	M/S KIA MOTORS INDIA PRIVATE LIMITED (KMI) recognizes that it is their responsibility for accuracy of information provided to GoAP and GoAP shall not be responsible for independently verifying the accuracy of M/S KIA MOTORS INDIA PRIVATE LIMITED (KMI)'s project information including investment details provided thereof. Any liability arising out of incorrect disclosure lies wholly with M/S KIA MOTORS INDIA PRIVATE LIMITED (KMI).
2	Delay in Project Commencement, Implementation &Commencement of Commercial Production by M/S KIA MOTORS INDIA PRIVATE LIMITED (KMI)	Any unreasonable delay in commencement of the project which is solely attributable to M/S KIA MOTORS INDIA PRIVATE LIMITED (KMI) may lead to cancellation of land allotment without prejudice to MoU terms & conditions including applicable G.O.'s and MoA. A penalty of an amount equivalent to prevailing SBI PLR may be levied on M/S KIA MOTORS INDIA PRIVATE LIMITED (KMI) corresponding to time period of holding the land idle and/or delay in project implementation including commencement of commercial production.
3	Disbursement of Incentives equal to 100% of investment in Eligible Fixed Assets Reconciliation of Incentives Incentive Amount Disentitlement of Incentives	Disbursement of State Fiscal Incentives shall be made during the term of incentive period subject to M/S KIA MOTORS INDIA PRIVATE LIMITED (KMI) meeting their project obligations as defined in the MoU terms & conditions including applicable G.O.'s and MoA. The State Fiscal Incentives to be paid to M/S KIA MOTORS INDIA PRIVATE LIMITED (KMI) shall not exceed 100% of investment in Eligible Fixed Assets made up to that point of time. The sum total of all State Fiscal Incentives to be paid to M/S KIA MOTORS INDIA PRIVATE LIMITED (KMI) by whatever nomenclature defined, i.e., Power tariff subsidy, incentives etc., shall not exceed 100% of investment in Eligible Fixed Assets as per the eligibility certificate granted from time to time subject to scrutiny of GoAP. The Power tariff subsidy and other annual State Fiscal Incentives shall be paid during the term of incentive period and shall not exceed 100% of investments in Eligible Fixed Assets made up to that point of time. Incentive amount to be paid to M/S KIA MOTORS INDIA PRIVATE LIMITED (KMI) shall be ascertained with reference to the value of Eligible Fixed Assets as certified by customs authorities for imported goods, for locally procured goods and services procured from within or outside India as per commercial invoices filed under GST and accounted for in the books of accounts of M/S KIA MOTORS INDIA PRIVATE LIMITED (KMI)& certified by Statutory Auditors of M/S KIA MOTORS INDIA PRIVATE LIMITED (KMI) and for imported services only commercial invoice and books of accounts should be mandatory including licensee fee and royalty fee amounts. M/S KIA MOTORS INDIA PRIVATE LIMITED (KMI) shall not be entitled to any State Fiscal Incentive by whatever nomenclature if their project obligations are not fulfilled as per the MoU terms & conditions including applicable G.O.'s and MoA. M/S KIA MOTORS INDIA PRIVATE LIMITED (KMI) shall not hold GoAP responsible for non-fulfilment of its project obligations subject to MoU terms & conditions including applicable G.O.'s and MoA.

S. No	Area	Coverage of clause
	PariPassu Charge of Eligible Fixed Assets	GoAP and M/S KIA MOTORS INDIA PRIVATE LIMITED (KMI) will discuss and mutually agree in relation to the details, modalities and instrument etc in relation to the charge to be created on M/S KIA MOTORS INDIA PRIVATE LIMITED (KMI)'s assets.
4	MoA	M/S KIA MOTORS INDIA PRIVATE LIMITED (KMI) shall enter into MoA for all eligible incentives under the MoU and applicable G.Os with designated authority / departments of the GoAP. M/S KIA MOTORS INDIA PRIVATE LIMITED (KMI) shall not hold GoAP responsible for any delay in execution of the MoA subject to MoU terms & conditions including applicable G.O.'s and MoA.

(BY ORDER AND IN THE NAME OF THE GOVERNOR OF ANDHRA PRADESH)

B. SREEDHAR
SECRETARY TO GOVERNMENT & CIP (I/c)

To
The Commissioner of Industries, Andhra Pradesh, Vijayawada.
M/s KIA Motors India Private Limited through the Commissioner of Industries, Andhra Pradesh.
The PR& RD (PR) Department.
The MA& UD Department.
The H.M. & F.W. Department.
The EFS&T Department.
The TR&B Department.
The Energy, I&I Department.
The LET&F Department.
The GA Department.
The Law (h) Department.
The Andhra Pradesh State Skill Development Corporation Ltd. (APSSDC)
The Collector & District Magistrate, Ananthapuramu District.
The VC&MD, APIIC Ltd.
The General Manager, District Industries Centre, Ananthapuramu District.
The Zonal Manager, APIIC, Ananthapuramu District
Copy to:
The Finance (EBS-VIII) Department.
Sf/sc.

//FORWARDED : : BY ORDER//

SECTION OFFICER